

AUSTRALIA

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated) 1/

	1996	1997	1998 2/
<i>Income, Production and Employment:</i>			
Nominal GDP 3/	396.0	354.9	350.6
Real GDP Growth (pct)	2.8	4.0	3.0
GDP by Sector: 4/			
Agriculture	13.2	11.7	10.9
Manufacturing	96.0	84.1	82.0
Services	192.6	173.9	168.7
Government	12.2	10.5	9.9
Per Capita GDP (US\$)	22,000	19,700	19,500
Labor Force (000s)	9,127	9,220	9,349
Unemployment Rate (pct)	8.6	8.6	8.1
<i>Money and Prices (annual percentage growth):</i>			
Money Supply (M3)	9.4	6.3	9.6
Consumer Price Inflation	1.5	-0.2	2.0
Exchange Rate (Aust\$/US\$ annual average)			
Official	N/A	N/A	N/A
Parallel	1.27	1.35	1.28
<i>Balance of Payments and Trade:</i>			
Total Exports FOB	60.4	56.7	55.8
Exports to U.S.	3.9	4.2	5.5
Total Imports CIF	61.5	55.8	58.8
Imports from U.S.	14.1	12.2	13.2
Trade Balance	-1.1	0.9	-2.9
Balance with U.S.	-10.2	-7.9	-7.6
External Public Debt	56.0	37.6	33.8
Fiscal Deficit/GDP (pct)	-0.9	-0.2	0.5
Current Account Deficit/GDP (pct)	4.1	3.8	5.0
Debt Service Payments/GDP	2.3	2.2	2.2
Gold and Foreign Exchange Reserves	15.8	15.6	15.5
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0

1/ Exchange rate fluctuations must be considered when analyzing data. Percentage changes calculated in Australian Dollars.

2/ 1998 figures are estimates based on available monthly data in October.

3/ Income measure of GDP.

4/ Production measure of GDP. "Manufacturing" includes manufacturing, mining, utilities, and construction.

1. General Policy Framework

Australia's developed market economy is dominated by its services sector (65 percent of GDP), yet it is the agricultural and mining sectors (9 percent of GDP combined) that account for the bulk (57 percent) of Australia's goods and services exports. Australia's comparative advantage in primary products is a reflection of the natural wealth of the Australian continent and its small domestic market: 19 million people occupy a continent the size of the contiguous United States. The relative size of the manufacturing sector has been declining for several decades, and now accounts for just over 14 percent of GDP.

The Australian economy is enjoying its sixth year of consistently strong growth, accompanied by low inflation and low interest rates (the official cash rate is currently at 4.75 percent). The Asian economic downturn has yet to have a significant impact on economic growth, despite forcing many exporters to target alternative markets. With inflation well under control (Australia recorded annual price deflation for the first time in 35 years in 1997), the task for economic policy makers is to lower the unemployment rate, which remains stubbornly mired in the 8.0 percent range.

The Liberal/National coalition government continued its program of fiscal consolidation in its budget for the 1998-99 fiscal year, announcing an underlying budget surplus (which removes debt repayments and assets from the headline balance) of \$1.5 billion.

2. Exchange Rate Policies

Australian Dollar exchange rates are determined by international currency markets. There is no official policy to defend any particular exchange rate level, although the RBA does operate in currency markets. The RBA is active in what it describes as "smoothing and testing" foreign exchange rates, in order to provide a generally stable environment for fundamental economic adjustment policies.

Australia does not have any major foreign exchange controls beyond requiring RBA approval if more than A\$5,000 in cash is to be taken out of Australia at any one time, or A\$50,000 in any form in one year. The purpose of this regulation is to prevent tax evasion and money laundering; authorization is usually automatic.

3. Structural Policies

The government is continuing a program of economic reform, begun in the 1980s, that includes the reduction of import protection and microeconomic reform. Initially broad in scope, the program now focuses on industry-by-industry changes and reform of the labor market. The government is also continuing with the privatization of government assets. One-third of the government telecommunications carrier Telstra was floated in November 1997.

The General Tariff Reduction Program, begun in March 1991, has reached its conclusion, with most existing tariffs now at 5 percent. However, the passenger motor vehicles and textiles, clothing and footwear industries are still protected by high tariffs (20 and 31 percent respectively). These tariffs are scheduled to decline to 15 and 25 percent respectively by 2000 (where they will remain, pending further review, until 2005).

The Liberal/National coalition government intends to restructure (subject to parliamentary approval) Australia's taxation system by 2000, by introducing a consumption tax and lowering income taxes.

4. Debt Management Policies

Australia's net foreign debt has averaged between 30 and 45 percent of GDP for the past decade, and in mid-1998 totaled \$133 billion (41.2 percent of GDP). Australia's net external public debt is \$40 billion, or 13 percent of GDP. The public sector accounts for 40 percent of Australia's external debt; the remainder is the responsibility of the private sector. The net debt-service ratio (the ratio of net income payable to export earnings) has remained steady between 11 and 12 percent since 1994, down from 21 percent in 1990.

5. Significant Barriers to U.S. Exports

Australia is a signatory to the WTO, but is not a member of the WTO Agreement on Government Procurement.

Services Barriers: The Australian services market is generally open, and many U.S. financial services, legal and travel firms are established there. The banking sector was liberalized in 1992, allowing foreign banks to be licensed as either branches or subsidiaries. Broadcast licensing rules were also liberalized in 1992, allowing up to 20 percent of the time used for paid advertisements to be filled with foreign-sourced material (far greater than the percentage of non-Australian messages actually broadcast).

Local content regulations also require that 55 percent of a commercial television station's weekly broadcasts between the hours of 6:00 a.m. and midnight must be dedicated to Australian-produced programs (The U.S. regrets that this requirement was recently increased from 50 percent). Regulations governing Australia's pay-TV industry require that channels carrying drama programs devote at least 10 percent of broadcast time to new, locally-produced programs.

Standards: Australia became a signatory to the GATT Standards Code in 1992. However, Australia still maintains restrictive standards requirements and design rules for automobile parts, electronic and medical equipment, and some machine parts and equipment. Currently, all Australian standards are being rewritten to harmonize them where possible to international standards, with the objective of fulfilling all obligations of the GATT Standards Code.

Labeling: Federal law requires that the country of origin be clearly indicated on the front label of some types of products sold in Australia. Various other federal and state labeling requirements are being reconsidered in light of compliance with GATT obligations, utility and effect on trade.

Commodity Boards: Several national and state commodity boards control the marketing and export of certain Australian agricultural products. Activities for these marketing authorities are financed by the producers, but some boards enjoy export monopoly powers conferred by the federal or state government. While some of the boards' domestic activities have been deregulated, the export of wheat and rice remains under the exclusive control of commodity boards. The government has indicated that the Australian wheat board (which strictly regulates wheat marketing abroad) will retain its export monopoly until at least 1999. The export of barley from certain states likewise remains strictly regulated.

Sanitary and Phytosanitary Restrictions: Australia's geographic isolation has allowed it to remain relatively free of exotic diseases. Australia imposes extremely stringent animal and plant quarantine restrictions, which at times are not based on sound evidence, or consistent with the risk involved. Concerns remain with cooked chicken, salmon, pork, grapes, citrus, stone fruit and apples.

Investment: The government requires notification of (but normally raises no objections to) investment proposals by foreign interests above certain notification thresholds, including: acquisitions of substantial interests in existing Australian businesses with assets of A\$5 million or more (A\$3 million for rural properties); new businesses involving an investment of A\$10 million or more; portfolio investments in the media sector of 5 percent or more; all non-portfolio investments irrespective of size; takeovers of Australian companies valued at either A\$20 million or more, or for more than 50 percent of the target company's total assets; and direct investment of foreign governments irrespective of size. Investment proposals for entities involving more than A\$50 million in total assets are approved unless found contrary to the national interest. Special regulations apply to investments in the banking sector, the media sector, urban real estate and civil aviation.

Divestment cannot be forced without due process of law. There is no record of forced divestment outside that stemming from investments or mergers that tend to create market dominance, contravene laws on equity participation, or result from unfulfilled contractual obligations.

Government Procurement: Since 1991, foreign information technology companies with annual sales to the Australian Government of A\$10-40 million (US\$6-24 million) have been required to enter into Fixed Term Arrangements (FTAs), and those with sales greater than A\$40 million into Partnerships for Development (PFDs). Under an FTA, a foreign company commits to undertake local industrial development activities worth 15 percent of its projected amount of government sales over a four year period. Under a PFD, a foreign firm agrees to invest 5 percent of its annual local turnover on research and development in Australia; export goods and services worth 50 percent of imports (for hardware companies) or 20 percent of turnover (for software

companies); and achieve 70 percent local content across all exports within the seven year life of the PFD.

The Information Technology Services Common Use Contract Panel (ITSCUCP), established in 1995, is used by government agencies in planning and implementing information technology (IT) purchases. Any information technology company may join upon demonstrating acceptable levels of Australian product development, investment in capital equipment, skills development and/or services support, local sourcing, and Australian R&D activities.

After a recent review of its purchasing practices, the government announced its commitment to source at least 10 percent of its purchases from Australian small to medium size enterprises. The government will continue to require tenderers to include industry development objectives in tender documents, with model guidelines to be developed in consultation with industry. The two envelope tendering system and the requirement for industry impact statements to accompany all procurements of more than A\$10 million were abolished in 1997.

Motor Vehicles: The import of used vehicles manufactured after 1973 for personal use is banned, except where the car was purchased and used overseas by the buyer for a minimum of three months. Commercial importers must apply for a "compliance plate" costing A\$20,000 for each make of car imported. Left hand drive cars must be converted to right hand drive (only by licensed garages) before they may be driven in Australia.

6. Export Subsidies Policies

Australia has signed the GATT Subsidies Code and joined with the U.S. in GATT negotiations to limit export subsidy use.

The coalition government has severely curtailed assistance schemes to Australian industry as part of its fiscal consolidation program. Under the Export Market Development Grants Scheme, the government gives grants to qualifying firms of up to A\$200,000 to assist in offsetting marketing costs incurred when establishing new export markets. There are also schemes available for drawbacks of tariffs and sales and excise taxes paid on the imported components of exported products. Such schemes are available in the passenger motor vehicle and the textiles, clothing and footwear industries. Grants schemes and tariff concessions have also been subject to expenditure reductions. The Research and Development Tax Concession (available to firms undertaking eligible R&D) was reduced from 150 percent to 125 percent. The only remaining bounty (production subsidy) assists producers of computer components, and is due to expire on July 1, 1999.

The "Factor (f)" scheme is designed to compensate manufacturers of pharmaceutical products for the effects of the federal government's intervention (through the national health system) in the market for consumer pharmaceuticals. Under the scheme, approved producers receive payments (to raise returns received for selected pharmaceuticals) to assist domestic drug research and development.

7. Protection of U.S. Intellectual Property

Australia is a member of the World Intellectual Property Organization (WIPO), and most multilateral IPR agreements, including: the Paris Convention for the Protection of Industrial Property; the Berne Convention for the Protection of Literary and Artistic Works; the Universal Copyright Convention; the Geneva Phonogram Convention; the Rome Convention for the Protection of Performers, Producers of Phonograms, and Broadcasting Organizations; and the Patent Cooperation Treaty. Australia has yet to take action on the new WIPO Copyright treaties. USTR has placed Australia on the Special 301 Watch List because of limitations in its protection of test data and parallel imports, among other concerns.

Patents: Patents are available for inventions in all fields of technology (except for human beings and biological processes relating to artificial human reproduction). They are protected by the Patents Act (1990), which offers coverage for 20 years subject to renewal. Trade secrets are protected by common law, such as by contract. Design features can be protected from imitation by registration under the Designs Act for up to 16 years (upon application).

Test Data: In 1997, the government passed legislation providing five years of protection for test data of new chemical entities. No protection is provided for data submitted in regard to new uses and new formulations. The government is currently reviewing a proposal to introduce new legislation to protect test data for agricultural and veterinary chemicals.

Trademarks and Copyrights: Australia provides TRIPs compatible protection for both registered and unregistered well known trademarks under the Trademark Act of 1995. The term of registration is ten years. Copyrights are protected under the Copyright Act of 1968 for a term of the life of the author plus 50 years. Computer programs can receive copyright protection. The government continues to consider broadening the copyright fair use exemption to include the decompilation of computer software. The Australian Copyright Act provides protection regarding public performances in hotels and clubs. Australia has effective protection against copyright piracy. The government passed legislation in 1998 removing parallel import protection for sound recordings and for goods whose protection was based on the copyright of packaging and labeling.

New Technologies: Infringement of new technologies does not appear to be a significant problem.

8. Worker Rights

a. The Right of Association: Workers in Australia fully enjoy and practice the rights to associate, to organize and to bargain collectively. In general, industrial disputes are resolved either through direct employer-union negotiations or under the auspices of the various state and federal industrial relations commissions. Australia has ratified most major international labor organization conventions regarding worker rights.

b. The Right to Organize and Bargain Collectively: Approximately 35 percent of the Australian workforce belongs to unions. The industrial relations system operates through independent federal and state tribunals; unions are currently fully integrated into that process. Legislation reducing the powers of unions to represent employees was passed by Federal Parliament in November 1996.

c. Prohibition of Forced or Compulsory Labor: Compulsory and forced labor are prohibited by conventions which Australia has ratified, and are not practiced in Australia.

d. Minimum Age for Employment of Children: The minimum age for the employment of children varies in Australia according to industry apprenticeship programs, but the enforced requirement in every state that children attend school until age 15 or 16 maintains an effective floor on the age at which children may be employed full time.

e. Acceptable Conditions of Work: There is no legislatively-determined minimum wage. An administratively-determined minimum wage exists, but is now largely outmoded, although some minimum wage clauses still remain in several federal awards and some state awards. Instead, various minimum wages in individual industries are specified in industry "awards" approved by state or federal tribunals. Workers in Australian industries generally enjoy hours, conditions, wages and health and safety standards that are among the best and highest in the world.

f. Rights in Sectors with U.S. Investment: Most of Australia's industrial sectors enjoy some U.S. investment. Worker rights in all sectors are essentially identical in law and practice and do not differ between domestic and foreign ownership.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad
on an Historical Cost Basis -- 1997**

(Millions of U.S. Dollars)

Category		Amount
Petroleum		1,206
Total Manufacturing		7,506
Food & Kindred Products	1,271	
Chemicals & Allied Products	2,394	
Primary & Fabricated Metals	298	
Industrial Machinery and Equipment	684	
Electric & Electronic Equipment	206	
Transportation Equipment	1,014	
Other Manufacturing	1,639	
Wholesale Trade		2,569
Banking		2,181
Finance/Insurance/Real Estate		4,779
Services		1,805
Other Industries		6,080
TOTAL ALL INDUSTRIES		26,125

Source: U.S. Department of Commerce, Bureau of Economic Analysis.